

SUBCOMMITTEE NO. 2

Agenda

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Upon Adjournment of Session
Room 112

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Resources—Environmental Protection—Public Safety—Energy

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3340 California Conservation Corps

Background. The California Conservation Corps (Corps) assists federal, state and local agencies, and nonprofit entities in conserving and improving California's natural resources while providing employment, training, and educational opportunities for young men and women. The Corps provides on-the-job training and educational opportunities to California residents aged 18 through 23, with projects that conserve and enhance the state's natural resources and environment. In addition to activities traditionally associated with the Corps like tree planting, stream clearance, and trail building, the Corps responds to emergencies caused by fires, floods, earthquakes, and other natural disasters. The Corps also develops and provides funding for eleven community conservation corps.

Governor's Budget. The Governor's budget proposes \$81.3 million to support the Corps in 2004-05. This is a \$11.6 million (13 percent) reduction from current year estimated expenditures. This reduction is a result of the Governor's proposal to reduce General Fund support for the Corps by 37 percent in the budget year. This reduction will require the Corps to close three residential centers and three non-residential centers. It will also result in a reduction of 200 corpsmember positions (14 percent reduction in corpsmembers) and an elimination of corpsmember health benefits. Furthermore, the reduction in corpsmembers reduces the special fund support that the Corps earns through work performed for reimbursement from other state agencies and local governments. The budget also proposes to fund two capital outlay projects at the Tahoe and Delta Corps centers using lease revenue bonds.

California Conservation Corps

Governor's Budget Spending Totals

(Dollars in Thousands)

	Proposed for 2004-05			
	Actual 2002-03	Estimated 2003-04	Amount	Percent Change
Type of Expenditure:				
Training and Work Program	\$84,446	\$81,050	\$51,157	-37%
Capital Outlay	938	11,883	30,149	154%
Administration	8,883	7,672	6,642	-13%
<i>less distributed administration</i>	-8,883	-7,672	-6,642	-13%
Total	\$85,384	\$92,933	\$81,306	-13%
Funding Source:				
General Fund	\$45,688	\$35,883	\$22,640	-37%
Special Funds	31,501	36,883	28,546	-23%
Bond Funds	7,505	8,764	0	-100%
<i>Budget Act Total</i>	<i>84,694</i>	<i>81,530</i>	<i>51,186</i>	<i>-37%</i>
Public Buildings Construction Fund	688	11,402	30,120	164%
Total	\$85,382	\$92,932	\$81,306	-13%

Budget Change Proposals. The following is a summary of the 2004-05 budget change proposals for the Corps.

California Conservation Corps
Budget Change Proposals, 2004-05
(Dollars in Thousands)

Description	General Fund	Special Funds	Total	Personnel Years
General Fund Reduction. Reduces Corps training and work program including closing residential centers in Los Padres, Ukiah, and Norwalk. Also proposes closing non-residential centers in McKinleyville, Arcata, and Crescent City, as well as downsizing centers in Sacramento and the Bay Area. Also results in a reduction of 200 corpsmembers and the elimination of corpsmember benefits.	-\$12,800	-	-\$12,800	-125
Capital Outlay. Proposes funding to relocate the Tahoe Base Center, construct the Delta Service Center, and fund preliminary planning for the Sierra/Placer residential facility sewer system connection.	29	30,100	30,129	0
Total	-\$12,771	\$30,100	\$17,329	-125

1. Funding Corps Activities with Workforce Investment Act Funds

Background. The federal government's Workforce Investment Act (WIA) provides federal funds to states for employment and training services. In the budget year approximately \$67 million in WIA funds will be allocated to the Employment Development Department (EDD) for discretionary purposes, including administration, statewide initiatives, current employment service programs, and/or competitive grants.

LAO Identifies Portion of WIA Funds Unallocated in Budget. The Analyst has identified approximately \$16.8 million in federal WIA funds that are unallocated in the budget year. The Analyst points out that even though these funds are commonly referred to as "Governor's discretionary" funds they are still subject to appropriation by the State Legislature according to federal law. Therefore, in order to ensure that the WIA funds are expended consistent with legislative priorities, the Analyst has recommended denying expenditure authority for these funds until an expenditure plan is submitted to the Legislature.

Corps Funding Opportunity. Since the Corps is involved in providing employment, training, and educational opportunities to young men and women, the Corps may be able to utilize some of the unallocated WIA funds in the budget year to reduce the impacts of the proposed General Fund reductions. The WIA funds do have some restrictions that may not allow the funds to directly backfill all of the Corps reductions, but the funds could be used to help mitigate some of the General Fund reductions and extend additional opportunities to corpsmembers in the budget year.

Senate Budget Subcommittee #3 Action. On Thursday, March 25, 2004, Senate Budget Subcommittee #3 took action in EDD's budget to adopt the LAO recommendation, thereby denying the expenditure authority until a plan for expending these funds is submitted. The subcommittee also took action to direct staff, the LAO, and the administration to consider the feasibility of funding the Corps using WIA funds.

Since then, DOF has indicated that it is in the process of developing a plan for expending the unallocated WIA funds in the budget year. Specifically they are determining what portion of the WIA funds is available to fund the Corps and other programs that serve youth. The DOF has also indicated that it is also evaluating what activities at the Corps could be funded with WIA funds. The DOF indicates that it would have additional information regarding this issue next week.

The Subcommittee may wish to ask DOF the following questions.

- How will the administration determine what portion of the unallocated WIA funds are available for the Corps?
- How will the administration determine what Corps activities are eligible to be funded by WIA funds?

Staff Recommendation. Staff recommends directing staff, the LAO, and the administration to develop trailer bill language to fund a portion of the Corps budget with WIA funds to mitigate some of the Corps General Fund reductions.

3480 Department of Conservation

Background. The Department of Conservation (DOC) is charged with the development and management of the state's land, energy, and mineral resources. The department manages programs in the areas of: geology, seismology, and mineral resources; oil, gas, and geothermal resources; agricultural and open-space land; and beverage container recycling.

Governor's Budget. The Governor's budget proposes \$881.6 million to support DOC in 2004-05. This is a \$196 million (29 percent) increase from current year estimated expenditures. This increase is mainly a result of the implementation of Chapter 753, Statutes of 2003 (AB 28, Jackson) that increased the deposit for beverage containers sold in California, thereby increasing revenues to the California Beverage Container Recycling Fund. The budget also proposes a \$1.2 million (24 percent) reduction in support from the General Fund, reflecting a \$551,000 reduction in funding for the California Farmland Conservancy and Williamson Act programs and a \$662,000 shift to a special fund supported by Williamson Act cancellation fees. The budget also reflects a significant reduction in bond funds due to the administration's decision to defer submission of its bond proposal until later in the spring.

Department of Conservation Governor's Budget Spending Totals (Dollars in Thousands)

Dollars in thousands)

			Proposed for 2004-05	
	Actual	Estimated		Percent
	2002-03	2003-04	Amount	Change
Type of Expenditure:				
Geologic Hazards and Mineral Resources Conservation	\$20,988	\$23,157	\$25,664	11%
Oil, Gas, and Geothermal Resources	13,625	14,236	14,464	2%
Land Resource Protection	10,509	29,941	3,534	-88%
Beverage Container Recycling and Litter Reduction	494,699	618,660	837,906	35%
Administration	9,301	9,883	9,941	1%
less distributed administration	-9,301	-9,883	-9,941	1%
Total	\$539,821	\$685,994	\$881,568	29%
Funding Source:				
General Fund	\$21,649	\$5,003	\$3,790	-24%
Special Funds	503,971	643,878	865,332	34%
Bond Funds	6,601	26,144	1,479	-94%
Budget Act Total	532,221	675,025	870,601	29%
Federal Funds	1,077	1,720	1,687	-2%
Bosco-Keene Renewable Resources Investment Fund	0	722	778	8%
Reimbursements	6,524	8,527	8,502	0%
Total	\$539,822	\$685,994	\$881,568	29%

Budget Change Proposals. The following is a summary of the 2004-05 budget change proposals for DOC.

Department of Conservation

Budget Change Proposals, 2004-05

(Dollars in Thousands)

Description	General Fund	Special Funds	Total	Personnel Years
<i>Beverage Container Recycling Administration.</i> Proposed to implement Chapter 753, Statutes of 2003 (AB 28, Jackson) that increased the deposit on beverage containers, including new oversight activities, start up new programs, and ensure options exist for the public to recycle.	-	\$553	\$553	0
<i>Seismic Hazard Mapping.</i> Provides ongoing administrative support for the Seismic Hazard Mapping Program.	-	1,230	1,230	12
<i>Williamson Act/California Farmland Conservancy Programs.</i> Proposes to reduce General Fund support for these programs. A portion of this reduction is proposed to be backfilled from the Soil Conservation Fund, which is derived from Williamson Act cancellation fees.	-1,213	662	-551	0
Total	-\$1,213	\$2,445	\$1,232	12

1. Williamson Act Cancellation Penalties

Background. The Williamson Act allows cities and counties to enter into contracts with landowners to restrict certain property to open space and agricultural uses. In return for these restrictions, the property owners pay reduced property taxes. The contracts entered into between local governments and property owners are ten-year contracts, which are typically renewed each year for an additional year, such that the contract remains at a constant 10 years. Landowners that do not renew their contracts face gradual increases in their property tax over a ten-year period to the level that unrestricted land is taxed. Landowners that cancel their Williamson Act contracts must pay a penalty of 12.5 percent of the unrestricted fair market value of the land.

Additional Penalties Imposed by Recent Law Change. Chapter 694, Statutes of 2003 (AB 1492, Laird) enacted additional penalties on landowners that are found to be in material breach of a Williamson Act contract. A material breach is defined to be the construction of a commercial, industrial, or residential structure exceeding 2,500 feet that is not permissible under a Williamson Act contract. Any structure constructed after January 1, 2004 meeting these specifications is subject to a penalty of 25 percent of the unrestricted fair market value of the land rendered incompatible by the breach and 25 percent of the value of the incompatible improvements made to the property.

Governor's Budget. The Governor's budget proposes to reduce DOC's open-space programs by \$551,000 and shift the remaining program to Williamson Act penalty revenues and bond funds. Williamson Act penalties are typically deposited in the General Fund. The Governor's budget proposes to transfer \$2 million to the Soil Conservation Fund to support administration of the Williamson Act program and support the department's farmland mapping efforts. The budget reductions over the past several years have greatly reduced DOC's open-space programs, including the California Farmland Conservancy Program (CFCP). The CFCP provides grants to acquire conservation easements on agricultural land threatened by development encroachment. The General Fund has been the primary funding source for this program, but in the budget year General Fund support for this program has been eliminated. Bond funds have been redirected to support this program in the budget year on a one-time basis.

LAO Recommendation. The Analyst recommends that the Legislature provide for the gradual elimination of payments to local governments for the local revenue losses associated with Williamson Act contracts. The Analyst has found substantial weaknesses in the program that reduces its effectiveness at preserving open space. For example, the Analyst cites that the state has no control over the specific land parcels and cannot ensure that participating lands are at risk of development pressures. Furthermore, landowners are allowed to cancel or not renew the contracts, which may not result in permanent changes to land use patterns.

Williamson Act Not as Effective at Preserving Open Space Post-Proposition 13. The passage of Proposition 13 in 1978 limited the property tax rate to 1 percent of assessed property value. It also limited increases in a property's assessed value to an adjustment of up to 2 percent annually, with reassessment at market value only upon resale. The effect of these limits has been that, in most cases, property taxes have a small financial impact and only marginally affect decisions to buy or develop real estate. Therefore, a property tax reduction, such as is provided through the Williamson Act, is unlikely to change current or future decisions regarding the development or preservation of open-space lands.

Cancellation Penalties Not Effective Deterrent to Breaking Contract. Current law requires landowners wishing to cancel their Williamson Act contract to pay a penalty of 12.5 percent on the unrestricted fair market value of the property. Despite this penalty, about 25 Williamson Act contracts are cancelled annually. As a result, an average of 1,200 acres of land is no longer under the Williamson Act protections each year. This is especially problematic given the rapid population growth and subsequent demand for housing in the Central Valley that has traditionally been predominantly agricultural. For example, DOC has already received 37 Williamson Act cancellations for nearly 3,000 acres so far in the current year.

Governor's Estimates of Penalty Revenues Seem Low. The Governor's budget assumes \$2.2 million in Williamson Act cancellation penalty revenues in the budget year. This is significantly less than the penalty revenues received in recent years. Over the past years the state has received approximately \$5 million annually in cancellation penalty revenues. In addition, the implementation of AB 1492 is estimated to about double Williamson Act cancellation penalty revenues. The administration's estimates of penalty revenues do not make any adjustments for the estimated increase in revenues due to implementation of AB 1492.

The subcommittee may wish to ask the department the following questions.

- Why is the Governor's estimate of Williamson Act penalty revenues significantly lower than in previous years?
- What level of Williamson Act penalty revenues does the department expect from the implementation of AB 1492?

Staff Recommendation. The subcommittee may wish to consider directing staff, the LAO, and the administration to develop trailer bill language to increase the penalties assessed for canceling a Williamson Act contract. This would provide a greater disincentive to cancel a Williamson Act contract, thereby increasing the effectiveness of this program in preserving open space.

2. Beverage Container Recycling Programs—Informational Item

Background. The DOC administers the California Beverage Container Recycling and Litter Reduction Act to achieve and maintain high recycling rates for each beverage container type included in the program. The DOC provides a number of services to achieve these goals, including enforcement, auditing, grant funding, technical assistance, and education. Chapter 753, Statutes of 2003 (AB 28, Jackson) increased the deposit for beverage containers sold in California from 2.5 cents to 4.0 cents for containers up to 24 ounces and from 5.0 cents to 8.0 cents for beverage containers over 24 ounces. The legislation also made several other changes to DOC's beverage container recycling program, including establishing several new programs.

Beverage Container Recycling Fund. The implementation of AB 28 results in a 40 percent increase in revenues to the Beverage Container Recycling Fund (BCRF) in the budget year. The department is assuming a 5 percent increase in the recycling rate due to the implementation of AB 28, thereby basing program expenditures on a 60 percent recycling rate for beverage containers. The department estimates that the BCRF will have a fund balance ranging from a low of \$14.1 million in July of 2004 to a high of \$95.1 million by the end of the budget year in June of 2005.

General Fund Loans. The BCRF has provided several loans to the General Fund over the past budget years to help address the state's budget crisis. The General Fund has borrowed approximately \$370 million over the past three years from the fund. The administration has not proposed repayment of these funds in the budget year. Language in the 2003-04 budget bill indicated that a portion of the loan should be repaid by June 30, 2009. The court has determined that these funds are not General Fund fungible and must be repaid to the BCRF eventually.

Questions. The Subcommittee may wish to ask the department questions regarding this program.

3. Abandoned Mine Remediation—Informational Item

Background. Last year Chapter 794, Statutes of 2003 (SB 649, Kuehl) was enacted that adopted a new fee schedule for silver and gold producers and dedicated that funding to abandoned mine reclamation. The Mining and Geology Board then adopted emergency regulations based on the amounts of gold and silver that are reported to the Department of Conservation. Those

regulations do not require reporting of gold and silver by mining operations in which the procurement of gold and silver is considered "incidental" to the mining operation, although that exception is not recognized as such in SB 649. Such operations are largely aggregate producers. In addition, the department currently estimates that revenues generated by the fees will be less than it estimated with the bill was being considered. Last year, the Department estimated that the fees may generate up to \$800,000. Lastly, the Department thus far has not proposed that any of the collected fees be spent on abandoned mine reclamation.

The subcommittee may wish to ask the department the following questions.

- Please advise the committee how much revenue the department expects to collect from the fees on gold and silver production to pay for abandoned mine remediation pursuant to SB 649 (Kuehl, 2003)?
- Does the department propose to spend any of this money for reclamation or remediation of abandoned mines in fiscal 2003-04? If not, why not?
- How many abandoned mines did DOC remediate or complete reclamation work on last year?
- Were any new mines illegally abandoned last year and get added to the DOC Abandoned Mine Inventory?
- Has the report on abandoned mine projects proposed for this year been prepared and submitted to the Legislature as required by Section 2797 of Public Resources Code? If not, is that because DOC does not propose to carry out any projects in fiscal 2004-05?

3540 Department of Forestry and Fire Protection

Background. The California Department of Forestry and Fire Protection (CDF), under the policy direction of the Board of Forestry, provides fire protection services directly or through contracts for timberlands, rangelands, and brushlands owned privately or by state or local agencies. In addition, CDF (1) regulates timber harvesting on forestland owned privately or by the state and (2) provides a variety of resource management services for owners of forestlands, rangelands, and brushlands.

Governor's Budget. The Governor's budget proposes \$683 million to support CDF in 2004-05. This is a \$163 million (19 percent) reduction from current year estimated expenditures. Most of this decrease reflects higher expenditures for fire suppression activities during the current year than proposed for 2004-05, reflecting a particularly high fire year in 2003-04. As in the current year, the proposed budget bill for 2004-05 authorizes the Director of Finance to augment the baseline appropriation for emergency fire suppression by an amount necessary to fund these costs.

Department of Forestry and Fire Protection

Governor's Budget Spending Totals

(Dollars in Thousands)

	Actual 2002-03	Estimated 2003-04	Proposed for 2004-05 Amount	Percent Change
Type of Expenditure:				
Office of the State Fire Marshal	\$11,205	\$12,715	\$12,425	-2%
Fire Protection	584,146	702,929	589,461	-16%
Resource Management	39,855	54,813	32,329	-41%
Capital Outlay	14,557	75,403	48,742	-35%
Administration	49,559	54,778	54,470	-1%
<i>less distributed administration</i>	<i>-49,316</i>	<i>-54,348</i>	<i>-54,040</i>	<i>-1%</i>
Total	\$650,006	\$846,290	\$683,387	-19%
Funding Source:				
General Fund	\$436,375	\$467,735	\$370,258	-21%
Special Funds	5,737	67,338	71,100	6%
Bond Funds	2,356	2,716	241	-91%
<i>Budget Act Total</i>	<i>444,468</i>	<i>537,789</i>	<i>441,599</i>	<i>-18%</i>
Federal Funds	17,616	66,077	26,108	-60%
Forest Resources Improvement Fund	140	-	-	-
Timber Tax Fund	26	28	30	7%
Public Building Construction Fund	13,221	73,161	44,636	-39%
Reimbursements	174,533	169,235	171,014	1%
Total	\$650,004	\$846,290	\$683,387	-19%

Budget Change Proposals. The following is a summary of the 2004-05 budget change proposals for CDF.

Department of Forestry and Fire Protection
Budget Change Proposals, 2004-05
(Dollars in Thousands)

Description	General Fund	Other Funds	Total	Personnel Years
Computer Aided Dispatch (CAD). Proposal to continue funding a contract to implement a CAD project to improve the ability of CDF to reduce the risk of major fire hazards.	-	\$1,622	\$1,622	0
Fire Shelter Replacement. Proposal to purchase redesigned fire shelters over four years to replace existing defective fire shelters issued to wildland firefighters.	740	-	740	0
Airplane Modernization. Proposal to reappropriate up to \$2 million General Fund from a 2001 budget appropriation to modernize four additional airplanes (the department has already modernized 20) to upgrade an aging fleet of airplanes for fire fighting.	0	-	0	0
Federal Funds. Proposal to expend additional federal grant moneys that are being awarded to the department to purchase equipment and supplies to fight wildland fires and terrorism concerns.	-	3,500	3,500	0
Pre-fire Fuel Reduction Projects. The Bureau of Land Management will be allocating funds to local agencies to reduce fuel in areas where wildland fire hazards are high. This request is for additional reimbursement authority to allows CDF crews to participate in these fuel reduction efforts.	-	200	200	0
ELPF Reduction. Proposes 10 percent reduction in funding from the Environmental License Plate Fund, which will result in minimal reductions to CDF's activities relating to biological diversity, environmental protection, and the Sierra Nevada integrated resource assessment.	-	-61	-61	0
Forest Resource Improvement Fund (FRIF). Proposes to eliminate the following programs formerly supported by revenue generated from forest harvests on the Jackson Demonstration State Forest given ongoing litigation: demonstration state forests, forest research, forest stewardship, nurseries, California forest improvement program, forest pest management, urban forestry, and watershed assessment.	-	-12,281	-12,281	0
Total	\$740	-\$7,020	-\$6,280	0

Capital Outlay Budget Change Proposals. The following is a summary of the 2004-05 capital outlay budget change proposals for CDF.

Department of Forestry and Fire Protection**Capital Outlay Budget Change Proposals, 2004-05***(Dollars in Thousands)*

Description	General Fund	Bond Funds	Total
<i>Mount Saint Helena Communications Facility.</i> Replace portions of telecommunications transmission facility. Proposal to fund preliminary plans, working drawings, and construction.	\$500	-	\$500
<i>Mendocino Unit Headquarters.</i> Replace auto shop. Proposal to fund acquisition of project site or up-front payoff of a long-term lease.	1,000	-	1,000
<i>Dew Drop Forest Fire Station.</i> Replace facility. The owner of the project site has agreed to gift the site to the state, but requires purchase of access easement from current land owner.	50	-	50
<i>Pacheco Forest Fire Station.</i> Replace facility. Proposal to fund up-front payoff of 50 year lease of project site.	175	-	175
<i>Stevens Creek Forest Fire Station.</i> Replace facility. Proposal to fund acquisition of project site or up-front payoff of a long-term lease.	175	-	175
<i>Owens Valley Conservation Camp.</i> Upgrade water, power, and sewer systems. Proposal to fund construction costs for utility upgrades.	1,856	-	1,856
<i>Nipomo Forest Fire Station.</i> Replace facility. Proposal to fund acquisition of project site or up-front payoff of a long-term lease.	175	-	175
<i>Warner Springs Forest Fire Station.</i> Replace facility. Proposal to fund up-front payoff of long-term lease.	175	-	175
<i>Weaverville Forest Fire Station.</i> Relocate facility. Proposal to fund incremental costs for working drawings and construction due to higher than expected bids for completing this previously approved project.	-	581	581
<i>Manton Forest Fire Station.</i> Relocate facility. Proposal to fund incremental costs for working drawings and construction due to higher than expected bids for completing this previously approved project.	-	720	720
<i>Fort Jones Forest Fire Station.</i> Replace facility. Proposal to fund incremental costs for construction due to projected bids that are higher than anticipated when project was originally submitted.	-	718	718
<i>Cuyamaca Forest Fire Station.</i> Relocate facility. Proposal to fund preliminary plans, working drawings, and construction costs.	-	3,294	3,294
Total	\$4,106	\$5,313	\$9,419

1. Fire Fees

Background. The CDF is responsible for fire protection on approximately one-third (31 million acres) of California's lands. The lands for which CDF is responsible are mostly privately owned forestlands, watersheds, and rangelands referred to as "state responsibility areas" (SRAs). The 2003-04 Budget Act included \$52.5 million in fire protection fees levied on private landowners in SRAs to partially offset the state's costs to provide fire protection services benefiting these landowners. According to the administration, the department is currently working to implement the fee collection.

Governor's Budget. The budget proposes expenditures of about \$589.5 million for the department's fire protection services in 2004-05, of which \$52.5 million is from fire protection fees, the same level as in the current year. The balance of the funding is from the General Fund (\$353.1 million), reimbursements (\$165.5 million), and federal and other funds (\$182.3 million). Accordingly, the budget proposes that fee revenue fund 9 percent of the department's fire protection budget.

LAO Recommends Fees Go Further in Budget Year. The Analyst recommends that the costs for providing fire protection on private lands be shared evenly between property owners and the general public. The Analyst's recommended cost-sharing arrangement would result in the current per parcel fee of \$35 increasing to approximately \$135 per parcel annually. This would result in General Fund savings of approximately \$150 million.

Legal Challenges to Fire Fees. The California Farm Bureau is suing the state on the constitutionality of the fire fees enacted as part of the budget last year. The plaintiffs claim that the fire fees are in direct violation of Propositions 13 and 218 that govern property taxes.

The subcommittee may wish to ask the department the following questions.

- The administration had indicated that it needed clean-up legislation to implement the fire fees. Even though the administration is implementing the fees in the current year are there technical issues that should be addressed in legislation to improve fee collection?
- Does the administration have any proposed changes to the current flat per-parcel fire protection fee structure?
- Does the administration expect that the implementation of the fire fees to be delayed by legal challenges?

Staff Recommendation. Staff recommends that the subcommittee hold this issue open.

2. Timber Harvest Plan Fees

Background. The state regulates the harvesting of timber on nonfederal lands in California under the Forest Practice Act. Specifically, timber harvest plans are prepared by a registered professional forester and cover such matters as harvest volume, cutting method, erosion control, and wildlife habitat protection. The CDF is the lead agency responsible for reviewing THPs. However, THPs are also reviewed by other agencies, including the Departments of Conservation and Fish and Game, and the nine regional boards of the State Water Resources Control Board

(SWRCB). Recently enacted legislation (Chapter 900, Statutes of 2003 [SB 810, Burton]) prohibits the approval of a THP if the SWRCB finds that the proposed timber operations will result in water pollution exceeding specified minimum allowable levels.

Governor's Budget. The budget proposes expenditures totaling \$20.3 million for various state agencies to review and enforce THPs (see table below).

Timber Harvest Plan Review Expenditures

Department	General Fund	Other Funds	Total
Forestry and Fire Protection	\$2.9	\$10.5	\$13.4
Fish and Game	1.7	0.8	2.5
State Water Resources Control Board	3.1	0.0	3.1
Conservation	1.3	0.0	1.3
Totals	\$9.0	\$11.3	\$20.3

The budget includes a plan to impose fees on timber owners (beginning in the current year) in order to partially offset CDF's costs for the review and enforcement of THPs. The fees are projected to generate \$5 million in the current year and \$10 million in the budget year.

Current-Year Funding. The *2003-04 Budget Act* reduced CDF's budget by \$10 million General Fund under the assumption that legislation would be enacted to generate fee revenues to backfill this reduction. However, legislation to implement THP fees was never enacted. As a consequence, CDF's THP review program faces a \$10 million shortfall in the current year.

The administration proposes to address this current-year shortfall by augmenting the current-year budget by \$10 million (\$5 million from THP fees and \$5 million from the General Fund). In addition, the budget's display of current-year expenditures also includes an additional \$5 million from the General Fund as "contingency" funding in the event that the proposed fee legislation is not enacted in time to partially address the current-year shortfall. All of the proposed expenditures to backfill the current-year funding shortfall (the \$5 million in fee revenues, the \$5 million from the General Fund, and the additional \$5 million from the General Fund as a contingency measure) require a legislative appropriation. To date, no legislation has been enacted to address the shortfall in the current year.

The department has indicated that it is addressing the shortfall in its current year budget through the redirection of \$5 million in federal funds and one-time reductions. The department has also indicated that the THP workload is less than expected.

LAO Recommends Fees Go Further. The Analyst recommends the enactment of legislation to establish THP fees to cover THP-related activities at all of the state agencies involved in reviewing and enforcing THPs. The Analyst cites a direct link between THP review and enforcement and the timber owners who directly benefit from the state regulatory activities. Adoption of the LAO recommendation would result in budget-year savings of \$9 million to the

General Fund, \$386,000 to the Public Resources Account (PRA), and \$422,000 to the Environmental License Plate Fund (ELPF).

LAO Recommends Eliminating “Contingency Funding”. The Analyst also recommends eliminating the \$5 million in “contingency funding” in the current year. The Analyst indicates that providing “back-up” funding from the General Fund in the *current* year results in “double budgeting.”

Retail Timber Tax Alternative. Senate Bill 557 (Kuehl) is structured as an alternative to imposing a timber harvest review fee directly on timber harvesting operators. This bill would impose a per board foot fee on retail lumber. The Department of Forestry estimates that a fee of this level could generate \$100 million annually. These revenues could be used to replace the General Fund at all departments reviewing timber harvest plans and provide additional funding for a variety of restoration and forestry-related projects that would otherwise not be funded.

The Subcommittee may wish to ask the department the following questions.

- How is the department addressing the \$10 million shortfall in the THP review program in the current year?
- Will the budget shortfall in the current year result in reduced review of THPs?

Staff Recommendation. Staff *recommends the Subcommittee direct staff, the LAO, and the administration to develop trailer bill language to implement the proposed Governor’s budget*, thereby establishing THP fees.

3. Forest Resources Improvement Fund Reductions

Background. Revenues generated from timber harvesting in state-owned forests are deposited into Forest Resources Improvement Fund (FRIF). Most of this revenue is generated from timber harvesting on the Jackson State Demonstration Forest (JSDF). Funds in FRIF have been used to support the operation of the state forests, for forestry assistance grants to landowners, and for the support of state nurseries, forest pest research and management, forest and rangeland assessment activities, and urban forestry programs.

Governor’s Budget. Because of ongoing litigation, timber harvesting will not occur on JSDF in the budget year. Due to the lack of FRIF revenues projected for the budget year, the budget proposes to eliminate funding (\$12.3 million) for all FRIF-funded activities.

Administration Indicates Revised Proposal Forthcoming. The administration has expressed its intention to submit a revised proposal relating to FRIF funded programs.

The Subcommittee may wish to ask the administration the following questions.

- How does the administration propose to fund FRIF activities in the budget year?
- What FRIF activities does the administration propose to fund in the budget year?

Staff Recommendation. Staff *recommends holding this item open* pending receipt of the forthcoming proposal from the administration.

4. Sell King Air—General Fund Savings

Background. The King Air is one of five “support” aircraft used by CDF to transport people and equipment in support of CDF’s mission. It is not used directly for fire suppression efforts. The aircraft is used approximately 200 flight hours a year.

LAO Option. The Analyst has suggested that as an option for General Fund savings that CDF sell the King Air and use other planes within CDF’s fleet, commercial flights, and private charters. Selling the King Air would result in ongoing General Fund savings of about \$400,000. These savings account for any additional costs that may be incurred if charter flights were used instead of the King Air.

Staff Recommendation. Staff recommends adopting trailer bill language to direct CDF to sell the King Air, thereby creating approximately \$400,000 in General Fund savings.

5. General Fund Reductions

Background. The majority of the General Fund supporting CDF’s budget is to fund fire suppression activities. Instead of trying to estimate an accurate level of expenditures needed for emergency fire suppression, the department proposes budget bill language that authorizes the Director of Finance to augment the baseline appropriation for emergency fire suppression by an amount necessary to fund these costs. This special provision enables CDF to augment its budget for emergency fire suppression without a direct appropriation from the Legislature.

Governor’s Budget. The Governor’s budget proposes \$366 million from the General Fund to fund CDF in 2004-05. This represents a \$100 million reduction from estimated current year expenditures. However, the majority of this difference is a result of the administration’s decision to budget only \$70 million for emergency fire suppression, which is \$95 million less than the current year (large fire year) and \$25 million less than the prior year. Therefore, even though the department’s General Fund budget has been reduced significantly in the budget year, it does not reflect reductions in its baseline budget for fire suppression. The department has taken no reductions in its fire suppression budget, but did reduce its resource management activities by \$1.9 million as part of the Control Section 4.10 reductions.

Budget Proposes General Fund Augmentations. The Governor’s budget proposes approximately \$4.9 million in General Fund augmentations. Approximately \$740,000 is for the purchase of replacement fire shelters for wildland firefighters. Staff recognizes the importance of purchasing upgraded fire shelters to protect firefighters. However, since the department has taken essentially no reductions in its baseline budget for fire suppression it seems that the department could fund this expenditure out of its existing budget for operating expenses and equipment (\$142 million in the budget year). If the department deems the purchase of the replacement fire shelters a high priority it could defer some of the purchases on the department’s equipment schedule, including the replacement of some pick-ups and transport trucks.

The remaining General Fund augmentations are to fund various capital outlay projects that do not qualify for lease revenue bond financing. Six of the eight General Fund capital outlay

proposals are to fund land acquisitions or up-front lease buyouts for projects that have already been approved by the Legislature. These activities cannot be financed by lease revenue bonds, so General Fund has been proposed to fund this portion of the project. In most cases these projects are already under construction.

Nevertheless, the remaining two General Fund capital outlay projects could be deferred. Approximately \$2.4 million General Fund is proposed for utility upgrades and the replacement of a telecommunications tower. Staff recognizes that these projects have been deferred previously and they are needed improvements. However, it is not clear why these projects cannot be deferred another year due to the current state of the General Fund.

Staff Recommendation. The subcommittee may wish to reduce CDF's General Fund budget by \$2.4 million in the budget year, thereby deferring \$2.4 million in capital outlay projects. This action would create \$2.4 million in General Fund savings.

6. Arson Hotline Implementation

Background. Section 4417.5 of the Public Resources Code requires the department to make available to the public a toll-free 800 telephone number to aid in apprehending suspected wildland arsonists. When the Legislature directed CDF to establish the Arson Hotline ten years ago, the department initially used federal grant funds to staff the program, and conducted an advertising campaign and other community out-reach activities. The CDF reports that the Hotline received an average of 50-70 calls per year with 30-35% of the calls containing valid information leading to over 40 possible suspects and the arrest and conviction of 17 arsonists. This grant funding ended in 1998. Since then, CDF reports that the Hotline has been operated on a more limited basis.

The Subcommittee may wish to ask the department the following questions.

- How many of the major wildfires that occurred in Southern California last October are believed to have been arson-caused?
- Are arson-caused wildfires increasing or decreasing? Can more be done by state and federal fire officials to deter potential wildland arsonists, as well as to arrest and convict persons causing arson fires?
- If the Arson Hotline was previously considered to be cost-effective, why hasn't the department made its funding more of a priority?
- If funds could be made available, how much would it cost to fully re-establish the Arson Hotline as it existed prior to 1998?

3600 Department of Fish and Game

Background. The Department of Fish and Game (DFG) administers programs and enforces laws pertaining to the fish, wildlife, and natural resources of the state. The Fish and Game Commission sets policies to guide the department in its activities and regulates fishing and hunting. The DFG currently manages about 850,000 acres including ecological reserves, wildlife management areas, hatcheries, and public access areas throughout the state.

Governor's Budget. The budget proposes total expenditures of \$274 million to support DFG in 2004-05. This level of expenditure is about the same as estimated current-year expenditures. However, the current-year budget reflects reductions of about \$12.5 million General Fund from 2002-03 expenditure levels. These reductions impact a variety of DFG's activities, including timber harvest plan review, management of marine resources, and resource assessment activities.

Department of Fish and Game

Governor's Budget Spending Totals

(Dollars in Thousands)

	Proposed for 2004-05			
	Actual 2002-03	Estimated 2003-04	Amount	Percent Change
Type of Expenditure:				
Biodiversity Conservation Program	\$99,075	\$116,772	\$110,550	-5%
Hunting, Fishing, and Public Use	40,152	41,776	43,407	4%
Management of Lands and Facilities	40,672	38,365	38,794	1%
Conservation Education and Enforcement	49,392	47,096	49,093	4%
Spill Prevention and Response	25,011	29,904	29,301	-2%
Capital Outlay	4,049	1,730	2,833	64%
Administration	32,336	32,661	32,661	0%
<i>less distributed administration</i>	<i>-32,336</i>	<i>-32,661</i>	<i>-32,661</i>	<i>0%</i>
Total	\$258,351	\$275,643	\$273,978	-1%
Funding Source:				
General Fund	\$50,143	\$37,670	\$37,352	-1%
Special Funds	132,782	133,403	137,124	3%
Bond Funds	12,975	11,607	3,290	-72%
<i>Budget Act Total</i>	<i>195,900</i>	<i>182,680</i>	<i>177,766</i>	<i>-3%</i>
Federal Funds	45,483	62,907	64,410	2%
Reimbursements	16,966	30,050	29,315	-2%
Salton Sea Restoration Fund	0	0	2,482	-
Harbors and Watercraft Revolving Fund	0	5	5	0%
Total	\$258,349	\$275,642	\$273,978	-1%

Budget Change Proposals. The following is a summary of the 2004-05 budget change proposals for DFG. In addition to these proposals, the department also intends to increase revenues to the Fish and Game Preservation Fund by increasing its collection efforts of environmental filing fees

for projects subject to the California Environmental Quality Act (CEQA) and by implementing a new fee schedule for streambed alteration permits.

Department of Fish and Game
Budget Change Proposals, 2004-05
(Dollars in Thousands)

Description	General Fund	Environmental License Plate Fund	Other Special Funds	Total	Personnel Years
<i>Comprehensive Wetlands Program.</i>	-	-\$894	\$1,500	\$606	0
Proposal requests to shift funding for program from the Environmental License Plate Fund to the Public Restoration Account (Prop 99) and restore program to its original baseline funding.					
<i>Marine Invasive Species Act.</i> Proposal to implement Chapter 491, Statutes of 2003 (AB 433, Nation) to enhance ballast water management. Funding for this program is from a fee levied on vessels each time they call on California ports.	-	-	1,184	1,184	4
<i>Quantification Settlement Agreement.</i> Proposal provides funding to implement three pieces of legislation related to the signing of the Colorado River QSA and the Salton Sea. Legislation requires DFG to begin work on the restoration study, adaptive management process, and preparation of NCCP to assess the impacts of water transfers proposed under the QSA on fish and wildlife species.	-	-	2,482	2,482	13
Total	\$0	-\$894	\$5,166	\$4,272	17

Capital Outlay Budget Change Proposals. The following is a summary of the 2004-05 capital outlay budget change proposals for DFG.

Department of Fish and Game**Capital Outlay Budget Change Proposals, 2004-05***(Dollars in Thousands)*

Description	General Fund	Special Funds	Reimbursements	Bond Funds	Total
Project Planning. Proposal for funding to conduct studies and budget cost estimates for future capital outlay projects.	-	\$60	\$100	-	\$160
Petroleum Chemistry Laboratory. Proposal to increase office space at existing laboratory.	-	193	-	-	193
Wildlife Care and Research Center. Proposal to complete construction of Marine Wildlife Veterinary Care and Research Center in Santa Cruz, CA.	-	280	-	-	280
Napa/Sonoma Marshes Wildlife Area. Proposal to construct freshwater conveyance pipeline from existing water well to the Huichica Creek Unit to maintain a permanent freshwater pond on the Western portion of the unit.	-			50	50
Shasta Valley Wildlife Area. Proposal to install an irrigation pivot sprinkler system to irrigate 125 acres of wildlife habitat composed of planted cereal grains and uplands.	-	-	-	100	100
Eel River Wildlife Area. Proposal to rebuild and reinforce the main exterior levee and service road of the Eel River Wildlife Area.	-	397	-	53	450
Total	\$0	\$930	\$100	\$203	\$1,233

1. General Fund Reductions

Governor's Budget. As part of the Control Section 4.10 reductions DFG reduced its General Fund support by 12.5 million, representing a 25 percent reduction from the General Fund expenditure level in 2002-03. The department has indicated that these reductions impacted a variety of its activities.

Program Reductions. The DFG has not been able to provide specific information on the impacts of the General Fund reductions made as part of the Control Section 4.10 reductions. The department has indicated it has eliminated review of timber harvest plans (THPs) in the Sierra Nevada as part of these reductions, which accounts for \$1.6 million of the total General Fund reductions.

The Subcommittee may wish to ask the department the following questions.

- What other specific programs have been impacted by the Control Section 4.10 reductions?
- What rationale was used to completely eliminate THP review in the Sierra Nevada?

Staff Recommendation. Staff recommends holding this budget open and directing the department to report to the subcommittee staff with additional information on the specific impacts of the Control Section 4.10 reductions before the May Revision hearing.

2. Lake Davis Pike Problem—Informational Item

Background. Two years ago, the department advised this subcommittee that it was annually spending \$500,000 to manage the Northern Pike that have been established in Lake Davis in Plumas county. Should these non-native fish escape downstream into the Sacramento River and San Joaquin Delta, they pose a dangerous threat to native salmon and steelhead trout, plus shad and other endangered species. Staff is advised that the population of Northern Pike in Lake Davis may now be at an all-time high, despite continued efforts for the past 5 years by DFG to eliminate them through the use of poison, netting, explosives and electro-shocking. Press reports indicate that the department may be now employing a de facto “contain and control” program at Lake Davis for these fish.

The subcommittee may wish to ask the department the following questions.

- What is the source of funding DFG is currently using for this “contain and control” program at Lake Davis, and has the department considered using any of the \$4 million surplus remaining in the Striped Bass Account or the \$1.7 million it expects to collect from the newly authorized Delta Enhancement Stamp?
- Does the Director consider “contain and control” the only practical solution to this problem or is there another approach for successfully eradicating the Northern Pike from Lake Davis?

3. Coho Salmon Recovery Plan

Background. In February this year, the Fish and Game Commission approved a DFG-drafted recovery plan for the endangered coho salmon, a species of fish protected under the California Endangered Species Act (CESA). This plan was adopted using authority provided last year by SB 216 (Sher, 2003). Without this legislation, the authority for the recovery plan would have expired on December 31, 2003. Under the provisions of Section 2106 of the Fish and Game Code (F&GC), DFG is specifically prohibited from spending any additional state funds for implementing the coho recovery plan, unless money is explicitly appropriated by the Legislature for that purpose. Section 2106 also directs DFG to seek private and federal funding for plan implementation. The cumulative cost of implementing this plan has been estimated to be \$5 billion.

The subcommittee may wish to ask the department the following questions.

- In view of the statutory restrictions imposed last year by the Legislature, is the department seeking to use any state funds in the Governor’s budget to implement the coho recovery plan? If so, how will the money be used? How much private and federal money is being committed to plan implementation?

- What, if any, of the regulatory reforms recommended by the coho recovery plan have been implemented to date or in the process of being adopted? Please explain.
- Will DFG be issuing “incidental take” permits to allow land use activities and water diversions that would otherwise cause a “take” of coho salmon? Will the permits be issued in reliance of the coho recovery plan?

4. Commercial Fishery Management—Informational Item

Background. Three years ago the Legislature enacted department-sponsored legislation directing DFG to prepare, and the Fish and Game Commission to adopt, a management plan to govern commercial squid fishing. Under the provisions of SB 209 (Sher, 2001), this plan was to have been adopted by December 31, 2002. This has not happened, meaning that commercial squid fishing is still being regulated under interim management measures that were originally adopted by the commission pursuant to SB 364 (Sher, 1997).

The subcommittee may wish to ask the department the following questions.

- Because the fishery management plan required by SB 209 is now two years late, what assurances can you provide the subcommittee that a plan assuring a sustainable commercial squid fishery will be adopted this year and in place in time for the 2005 fishing season?

5. Licensing of Commercial Trappers—Informational Item

Background. In 2002, the Legislature enacted SB 1645 (Sher, 2002) which requires all persons who provide commercial trapping services on a fee-for-hire or contract basis to be licensed by the department. Although the legislation was written in close cooperation with DFG, the department has not yet completed development of implementing regulations. Consequently, DFG is not yet enforcing the requirements of SB 1645, thereby allowing an unknown number of commercial trappers to continue operating illegally without licenses.

The subcommittee may wish to ask the department the following questions.

- When can we expect the department’s proposal for implementing regulations to be finalized and adopted by the Fish and Game Commission?
- Can the department assure the subcommittee that this will happen during 2004?
- Does DFG believe that all pest control operators should be totally exempt from the licensing requirements of SB 1645?

3720 California Coastal Commission

Background. The California Coastal Commission, following its initial creation in 1972 by a voter initiative, was permanently established by the State Coastal Act of 1976. In general, the act seeks to protect the state's natural and scenic resources along California's coast. It also delineates a "coastal zone" running the length of California's coast, extending seaward to the state's territorial limit of three miles, and extending inland a varying width from 1,000 yards to several miles. The commission's primary responsibility is to implement the act's provisions. It is also the state's planning and management agency for the coastal zone. The commission's jurisdiction does not include the San Francisco Bay Area, where the San Francisco Bay Conservation and Development Commission regulate development.

Governor's Budget. The Governor's budget proposes a total of \$14.5 million to support the Coastal Commission in 2004-05. This is a decrease of 3 percent over estimated expenditures in the current year.

California Coastal Commission

Governor's Budget Spending Totals

(Dollars in Thousands)

	Actual 2002-03	Estimated 2003-04	Proposed for 2004-05 Amount	Percent Change
Program:				
Coastal Management Program	\$15,174	\$14,032	\$13,648	-3%
Coastal Energy Program	728	770	770	0%
Undistributed Administration	119	81	81	0%
Total	\$16,021	\$14,883	\$14,499	-3%
Funding Source:				
General Fund	\$10,716	\$9,552	\$9,549	0%
Special Funds	947	1,134	753	-34%
<i>Budget Act Total</i>	<i>11,663</i>	<i>10,686</i>	<i>10,302</i>	<i>-4%</i>
Federal Trust Fund	3,110	2,983	2,983	0%
Reimbursements	1,249	1,214	1,214	0%
Total	\$16,022	\$14,883	\$14,499	-3%

1. Alternative Funding Source for Coastal Commission's Permitting Functions

Background. The commission's core program activities include issuing and enforcing permits for coastal development. The budget proposes about \$7.5 million for the commission's permitting and enforcement activities in 2004-05. Of this total amount, the majority is from the General Fund, while the remainder is from federal funds and reimbursements. The budget projects that the commission will have permit fee revenues of \$500,000 and penalty revenues of

\$150,000 in the budget year. However, these revenues are transferred to the State Coastal Conservancy (SCC) for support of its programs.

LAO Recommendation. The Analyst recommends that *fees levied on permittees/developers be increased so that they fully cover the commission's costs to issue and enforce permits*. This would result in *General Fund savings of \$5.8 million* in the budget year. The analyst also recommends eliminating the transfer of the commission's fee and penalty revenues (\$650,000 annually) to SCC. The analyst cites the following rationale for shifting the funding of this program from the General Fund to fees on permittees/developers:

- **Commission's Fees are Low Compared to Local Fees.** Currently, the commission's highest permit fee is \$20,000, which applies to large projects. The Analyst finds that local jurisdictions charge as much as 100 times more to permit comparable projects.
- **Fees Are a More Appropriate Funding Source for Program.** The Analyst cites that fees rather than the General Fund is a more appropriate funding source since permittees/developers are direct beneficiaries of the commission's permitting activities.

Coastal Commission's Response. The Coastal Commission is *opposed to full cost recovery from fees* for the commission's regulatory and enforcement program. It also opposes eliminating the transfer of fee and penalty revenue to SCC. Nevertheless, they *do not oppose increasing fees* charged permittees/developers for work related to permitting and enforcement.

The commission has raised several valid concerns in response to the Analyst's proposal. These include the following:

- **Considerable Fee Increases Would Be Needed.** The commission estimates that fees would need to be increased over 10 fold to fully cover program costs.
- **Permits Are Variable and Declining by Design.** The commission notes that there is significant variability in the number and size of the permits granted annually, which makes projecting revenues somewhat difficult. In addition, as local coastal programs (LCPs) are adopted, permit and enforcement activities are shifted to the local jurisdictions. Therefore, as additional jurisdictions adopt LCPs permit and enforcement workload is reduced.
- **Eliminating SCC Funding Impacts Public Access.** The SCC utilizes the fees and penalties to provide grants to locals for operations and maintenance of public accessways to the beach and shoreline. There are significant bond funds available to SCC to improve coastal access, but bond funds are not appropriate to fund operations and maintenance activities.
- **Regulatory Program Also Benefits Public.** The commission cites that its regulatory program also benefits society as a whole since its permitting activities serve to protect the coast for the entire public to enjoy.

Potential Permit Fee Scenarios. The figure below provides information on the fee levels needed to reach certain levels of revenues. The first column is the commission's current fee schedule. Scenario A is the fee level if the fees had increased with inflation since 1991 (the last time the commission's fees were increased), which represents a 36 percent increase from the current fee levels. Scenario B is the fee level required for full cost recovery assuming the commission continues to deposit its fees in the General Fund. The department argues that the creation of a

special fund would further increase the fees needed for full cost recovery because of the pro rata charged on special funded programs.

Sample Permit Fee Schedule Scenarios

	Current Permit Fees	Scenario A: Increase Fes by Inflation	Scenario B: Full Recovery Regulatory Program Costs
New single family dwelling	\$200	\$272	\$2,400
Lot line adjustment	600	816	7,200
Office, commercial, convention, industrial new structures	100	640	1,500
Up to 1,000 square feet	500	680	6,000
100,001 square feet or more	20,000	27,200	240,000
Estimated Annual Revenue Generated	\$50,000	\$680,000	\$5,800,000

Commission's Concerns with Creation of Special Fund. The commission has also raised concerns with creating a special fund for deposit of its fee revenues, which is common practice in other program areas. The commission is concerned that if funded solely by the special fund its budget will be subject to wide fluctuations based on the variability of its fee revenues. In addition, the commission is also concerned that permit fees would have to be increased even further to account for the pro rata assessed on special funds. Furthermore, the Attorney General does not charge a specific fee to represent General Fund supported agencies, thereby further increasing the costs at the commission.

Staff Recommendation. Staff agrees with the LAO and the commission that permit fees should be increased. However, the commission does identify valid concerns regarding shifting to full fee recovery of its regulatory program and regarding the creation of a special fund. Furthermore, staff recognizes the public benefit of the commission's regulatory program and recommends that funding for the program be shared between permit fees and the General Fund. Given these factors, *staff recommends that the subcommittee holds this issue open and direct staff, the LAO, and the department to develop trailer bill language to accomplish the following:*

- *Increase the commission's fee revenues by an amount reasonable to implement in the budget year.*
- *Amend the current law that requires all fees collected by the commission be transferred to SCC, thereby allowing a portion of the fees to be deposited in the General Fund to support the Coastal Commission's regulatory program.*

3790 Department of Parks and Recreation

Background. The Department of Parks and Recreation (DPR) acquires, develops, and manages the natural, cultural, and recreational resources in the state park system and the off-highway vehicle trail system. In addition, the department administers state and federal grants to local entities that help provide parks and open-space areas throughout the state.

The state park system consists of 277 units, including 31 units administered by local and regional agencies. The system contains approximately 1.4 million acres, which includes 3,800 miles of trails, 300 miles of coastline, 800 miles of lake and river frontage, and about 14,800 campsites. Over 80 million visitors travel to state parks each year.

Governor's Budget. The Governor's budget proposes \$389.6 million to support DPR in 2004-05. This is \$1.1 billion (73 percent) reduction from current year estimated expenditures. Most of this reduction reflects a decrease in available bond funds for local parks and the administration's decision to defer its bond fund proposal until later in the spring.

Department of Parks and Recreation

Governor's Budget Spending Totals

(Dollars in Thousands)

Dollars in Thousands

			Proposed for 2004-05	
	Actual	Estimated		Percent
	2002-03	2003-04	Amount	Change
Type of Expenditure:				
State Operations	\$289,702	\$288,777	\$290,129	0%
Local Assistance	371,200	867,117	41,105	-95%
Capital Outlay	84,222	284,781	58,409	-79%
Total	\$745,124	\$1,440,675	\$389,643	-73%
Funding Source:				
General Fund	\$132,326	\$97,346	\$82,316	-15%
Special Funds	149,786	225,584	202,516	-10%
Bond Funds	429,955	1,031,602	57,805	-94%
Budget Act Total	712,067	1,354,532	342,637	-75%
Federal Funds	15,685	56,156	28,927	-48%
Reimbursements	16,734	29,304	17,378	-41%
Harbors and Watercraft Revolving Fund	638	685	701	2%
Total	\$745,124	\$1,440,677	\$389,643	-73%

Budget Change Proposals. The following is a summary of the 2004-05 budget change proposals for DPR.

Department of Parks and Recreation
Budget Change Proposals, 2004-05
(Dollars in Thousands)

Description	General Fund	Special Funds	Bond Funds	Total	Personnel Years
Americans With Disability Act (ADA). Proposes funding to implement year three of ADA transition plan. Also proposes extending schedule for implementing \$100 million in park upgrades to improve compliance with ADA requirements from 7 to 14 years.	-	\$600	\$4,000	\$4,600	0
Off-Highway Vehicles (OHV). Proposes funding for staffing, operating expenses, and equipment to fund mandated OHV programs and to fund operation of a new OHV recreation unit in Riverside County.	-	8,207	-	8,207	11
State Park Fees. Proposes increasing park fees to generate \$18 million, which would backfill \$15 million General Fund reduction and provide \$3 million in additional revenue for maintenance of state park units.	-15,000	18,000	-	3,000	-
Total	-15,000	\$26,807	\$4,000	\$15,807	11

Parks Local Assistance Funding. The following is a summary of the 2004-05 proposal for funding the Local Assistance Program at DPR.

Department of Parks and Recreation
Local Assistance Program, 2004-05
(Dollars in Thousands)

Fund Source	Recreational Grants	Local Projects	OHV Grants	Historical Preservation Grants	Total
Habitat Conservation Fund	\$2,205	\$1,500	-	-	\$3,705
Off-Highway Vehicle Trust Fund	-	-	17,000	-	\$17,000
Recreational Trails Fund	5,000	-	1,200	-	\$6,200
Federal Trust Fund	13,000	-	-	1,200	\$14,200
Total	\$20,205	\$1,500	\$18,200	\$1,200	\$41,105

Capital Outlay Budget Change Proposals. The following is a summary of the 2004-05 capital outlay budget change proposals for DPR.

Department of Parks and Recreation
Capital Outlay Budget Change Proposals, 2004-05
(Dollars in Thousands)

Description	General Fund	Special Funds	Bond Funds	Other Funds	Total
Habitat Conservation Purchases. Proposes funds to acquire habitat lands located in and adjacent to units of the State Park System.	-	\$1,000	-		\$1,000
Federal Trust Fund. Proposes funds to acquire units or improve facilities within the State Park System. Potential projects include, Anza-Borrego Desert SP, Redwood parks, and Santa Cruz Mountains parks.	-	-	-	3,700	3,700
Prairie City State Vehicular Recreation Area. Proposes funding for working drawings and construction to improve the Prairie City facility.	-	6,519	-	-	6,519
Off-Highway Vehicle (OHV) Opportunity Purchases. Proposes funding for developing future OHV projects and to make purchases adjacent to state or federal OHV areas that become available.	-	400	-	-	400
OHV Minor Capital Outlay. Proposes funding for various small projects at State Vehicular Recreation Areas.	-	2,221	-	-	2,221
Big Basin Redwoods. Proposes to fund construction costs of rehabilitating the wastewater treatment plant located at the state park.	-	-	1,066	-	1,066
Crystal Cove. Proposes to fund the first phase of construction costs (demolition, clean up, and sewer improvements) to convert the El Morro mobilehome park to a full public access park.	-	-	5,511	-	5,511
Fort Ross. Proposes to fund construction of water system improvements at the park.	-	-	1,092	-	1,092
Morro Bay. Proposes to fund construction of sewer system improvements at the park.	-	-	968	-	968
Samuel P. Taylor. Proposes to fund preliminary plans to install new concrete reservoirs to improve the current water storage system at the park.	-	-	199	-	199
Reimbursed Projects. Proposes reimbursement authority to allow the department to receive funds from other state departments and entities to acquire and develop state park properties.	-	-	-	3,000	3,000
Total	\$0	\$10,140	\$8,836	\$6,700	\$25,676

1. Governor's Park Fee Proposal

Background. The state's park system consists of hundreds of units and serves over 80 million visitors annually. The General Fund is the primary funding source for the state's park system. However, fees paid by park visitors and other special funds also support the park system.

Governor's Budget. The budget proposes to increase revenues from state park visitor fees by \$18 million, of which \$15 million will be used to replace General Fund support currently budgeted in the department for state park operations. The remaining additional revenue will be used for expanded collection activities (\$1 million) and additional maintenance activities (\$2 million). Under this proposal, the percentage of the department's operating costs that will be funded by visitor fees will increase from 18 percent to 24 percent.

The administration's proposal includes a plan to change the way fee increases are structured. The administration is proposing to make fee adjustments based on "market" factors, including a consideration of other competing recreational opportunities (both public and private) in the vicinity of the park, visitor demand for the park, the time of year, and the particular service features at a park. This will result in greater differential in fees among and within parks under the new schedule. However, current law requires the department to make available reduced price day-use passes to those receiving public assistance and senior citizens.

LAO Recommendation. The Analyst makes the following three recommendations regarding the administration's fee proposal:

- **Approve Fund Shift to Fees.** The Analyst finds that park users benefit directly from the recreational services provided at state parks and **recommends approval of the Governor's proposal to shift support from the General Fund to increased fees.** The Analyst also supports the department's plan to structure fees using a more market-based approach because such an approach is better able to reflect the value to park users of their visit to state parks and is consistent with the way other state and federal land managers structure park fees.
- **Department to Report on Revenue Projections.** The Analyst has expressed concern regarding DPR's inability to provide detail on how the department plans on reaching its revenue projections. Given this uncertainty, the Analyst **recommends adopting supplemental report language to direct DPR to report on the department's final fee schedule, updated revenue estimates, and visitor attendance numbers.** This information will help the Legislature in evaluating the need for any mid-year budget adjustments or addressing policy concerns that may arise (such as a greater-than-anticipated reduction in visitors).
- **Legislation to Provide Parameters for Fees.** Current law provides DPR the authority to enact fees, but provides few parameters to guide how park fees should be structured. The Analyst **recommends that the Legislature enact trailer bill language that provides some policy guidance to the department to ensure that adjustments to visitor fees are consistent with legislative priorities.** The Analyst recommends the trailer bill language address the role of fees in state park funding. The Analyst furthermore recommends trailer bill language include the following:
 - Fee structure should include differential pricing based on the level of service and facilities offered.
 - Fees should be comparable with the fees of similarly situated recreational providers.

- Innovative user-friendly fee collection such as automated fee machines should be encouraged.
- Schedule of park fees should be reported annually.
- Fees should be used to support deferred maintenance when feasible.

Staff Recommendation. (1) Staff *recommends approving the administration's proposal to raise park fees* and generate \$18 million in 2004-05. This will provide \$15 million in General Fund savings. (2) Staff *recommends that the subcommittee direct staff, the LAO, and the department to develop trailer bill language that would provide long-term park fee policy that the department should use in setting park fees, along with supplemental report language to provide the Legislature with information on what the impacts of the administration's new fee policy* have had on visitation and whether revenues are consistent with projections.

2. Pilot Program to Increase Private Sector Involvement in State Parks—Informational Item

Background. The increased use of the private sector is seen as having several potential advantages, including reduced costs, increased efficiencies, and/or improved service delivery. Recreational services provided by public agencies, such as DPR, are often considered good candidates for increasing private sector involvement because these are activities that the private sector is substantially involved in.

Governor's Budget. The Governor's budget document indicates the administration's intent to pursue a state constitutional amendment that would allow for a greater use of contracting for the delivery of services. (This proposal is not specific to DPR, but applies across government.) This constitutional amendment is designed to provide greater legal certainty and therefore opportunities to contract out for services. The Governor's budget does not provide a specific proposal for increasing contracting out at DPR, but does recommend there be further consideration given to promoting the greater use of concessions within state parks.

Current Private Sector Involvement in DPR. Currently, DPR relies on a combination of the private and public sectors to operate and maintain its parks. Typically, DPR uses its own seasonal and permanent staff for housekeeping activities, maintenance, fee collection, interpretative services, and public safety activities. However, the department also relies on the private sector (including nonprofit organizations) for a variety of activities, as shown in the figure below. The department reports expenditures of about \$17 million (about 5 percent of its operating budget) on these private sector activities in 2002-03.

**Examples of Existing Private Sector Involvement
In DPR's Park Operations**

Contracts	Concessions	Nonprofit Providers
Refuse disposal	Snack stands	Interpretation
Chemical toilet pumping	Restaurants	Operation of facilities
Alarm monitoring	hearth Castle operations	Retail Stores
Snow removal	Day use fee collections	
Pest control	Golf course operations	
Exhibit design and fabrication	Lodging	
	Retail shops	
	Marina operations	
	Camp stores	
	Equipment rentals	

Private Sector Involvement in Other Park Jurisdictions. The Analyst conducted a survey of other park jurisdictions and found several examples where other park jurisdictions involve the private sector significantly in additional ways beyond those used by DPR. Some park jurisdictions utilized the private sector for assisting with daily maintenance activities, operating campgrounds, operating day use facilities, and even operating entire state parks.

All of the jurisdictions surveyed by the Analyst reported a lack of quantifiable data on the results of their efforts to increase the role of the private sector in park operations. These jurisdictions were not able to report on specific savings that resulted from involving the private sector in the operation of state parks. Despite the lack of quantifiable results, some jurisdictions were able to provide anecdotal evidence on advantages and disadvantages of increasing the involvement of the private sector in park operations. Common advantages and disadvantages are listed in the figure below.

**Advantages and Disadvantages of Increased Private Sector Involvement
As Reported by Park Jurisdictions**

Advantages	Disadvantages
Concession contracts can help with cash flow.	Contract management costs can be high.
Can allow public resources to be redirected to other activities.	In large-scale privatization efforts, there can be significant costs to revert back to publicly provided services.
Provides more staffing options.	Can result in low morale among remaining public sector employees.
Labor costs are generally lower.	Quality of maintenance work may be reduced.

LAO Recommendation. Based on their survey of private sector involvement in other park jurisdictions, the Analyst ***recommends implementing a pilot program to selectively expand private sector involvement in state parks into activities that currently are not being partnered with the private sector.*** The Analyst cites that the lack of conclusive studies of the success of private sector involvement in other park jurisdictions makes moving beyond a pilot effort premature at this time. The Analyst furthermore makes recommendations on how to best

structure the pilot so that it provides needed information on the advantages and disadvantages, as well as costs and benefits of greater private sector involvement. The Analyst anticipates that implementing this recommendation would have minimal impact on the department's costs. Furthermore, DPR indicated to staff at a pre-hearing meeting that it was planning on its own to engage in some small projects that increased involvement of the private sector in park operations.

Questions the subcommittee may wish to ask the department.

- Does the department plan to increase private sector involvement in park operations in the budget year?

3. Proposition 99 Funding—Informational

Background. The Cigarette and Tobacco Products Surtax Fund was established by Proposition 99, which was approved by the voters in 1988. This measure created a surtax on cigarette and tobacco products to fund various programs through different accounts. One of the accounts created was the Public Resources Account, which was to fund the following two activities:

- Programs to protect, restore, enhance, or maintain fish, waterfowl, and wildlife habitat.
- Programs to enhance state and local park and recreation resources.

Governor's Budget. The Governor's budget proposes to expend \$10.7 million from the Public Resources Account of the Cigarette and Tobacco Products Surtax Fund to support DPR in 2004-05. The budget also proposes to expend \$1.5 million from this account to fund a comprehensive wetlands program at the Department of Fish and Game (DFG). This is the first year DFG has received funding from this source for this program.

Funding Should Be Allocated Equally. The statute that governs the expenditure of the funds from the Public Resources Account directs the funds to be split equally between habitat restoration activities and parks. However, it is not clear that this is how the funds are proposed to be allocated in the budget year.

The subcommittee may wish to ask the department the following questions.

- What activities does DPR support with its Proposition 99 funds?
- Are some of these activities directly related to habitat restoration?

San Francisco Bay Conservation and Development Commission

Background. The San Francisco Bay Conservation and Development Commission (BCDC) implements and updates the San Francisco Bay Plan and the Suisun Marsh Protection Plan. Under these plans, BCDC regulates and issues permits for (1) all filling and dredging activities in the San Francisco, San Pablo, and Suisun Bays including specified sloughs, creeks, and tributaries; (2) changes in the use of salt ponds and other "managed wetlands" adjacent to the bay; and (3) significant changes in land use within the 100-foot strip inland from the bay. The commission's main objectives are to minimize fill in San Francisco Bay and maximize public access to the shoreline.

Governor's Budget. The Governor's budget proposes \$3.9 million for support of BCDC in 2004-05, a reduction of nearly \$1 million, or about 20 percent, below estimated expenditures in the current year. This decrease mainly reflects a reduction in projected reimbursements from other state agencies for work performed on their behalf or as pass-through of federal grant funds.

San Francisco Bay Conservation and Development Commission

Governor's Budget Spending Totals

(Dollars in Thousands)

	Actual 2002-03	Estimated 2003-04	Proposed for 2004-05	
			Amount	Percent Change
Funding Source:				
General Fund	\$3,465	\$3,112	\$3,113	0%
<i>Budget Act Total</i>	<i>\$3,465</i>	<i>\$3,112</i>	<i>\$3,113</i>	<i>0%</i>
Bay Fill Clean-Up and Abatement Fund	\$146	\$155	\$171	10%
Reimbursements	1,108	1,633	658	-60%
Total	\$4,719	\$4,900	\$3,942	-20%

1. Alternative Funding Source for BCDC's Permitting Functions

Background. The core program activities of BCDC include issuing and enforcing permits for specified development within its geographic jurisdiction. The budget proposes \$2.6 million for BCDC's permitting and enforcement activities (regulatory program) in 2004-05. Of this total amount, the majority is from the General Fund, while the remainder is from permit fees, penalties, and reimbursements. The budget projects that BCDC will have permit fee revenues of \$135,000 and fine and penalty revenues of \$171,000 in the budget year.

LAO Recommendation. The Analyst recommends that *fees levied on permittees/developers be increased so that they fully cover BCDC's regulatory program costs*. This would result in *General Fund savings of \$2.1 million* in the budget year. The Analyst cites the following rationale for shifting the support for this program from the General Fund to fees on permittees/developers:

- **BCDC's Permit Fees have not been revised in 13 Years.** The BCDC highest permit fee is \$10,000, which applies to large projects. The Analyst finds that this is far below the permit fees assessed by local agencies for comparable development projects.
- **Fees Are a More Appropriate Funding Source for Program.** The Analyst cites that fee revenue rather than the General Fund is a more appropriate funding source since permittees/developers are direct beneficiaries of the commission's permitting activities.

BCDC Response. At a recent commission meeting the commission concluded that increasing its fees by 300 percent, which would generate 20 percent of BCDC's regulatory program costs, is a reasonable target. The commission also raised several issues with the Analyst's recommendation, including the following:

- **Considerable Fee Increases Would Be Needed For Full Cost Recovery.** The BCDC is concerned that increasing fees to cover all its regulatory program costs would greatly increase current fee levels. The commission has suggested phasing in fee increases over multiple years.
- **Permit Fees Vary from Year to Year.** The BCDC has provided historical revenue information that shows that revenues have varied tremendously from year to year. Over the past ten years BCDC has collected on average \$129,000 annually. However, in the same period it collected as much as \$218,000 and as little as \$58,000 in a single year. The variability of the commission's revenue stream would make it difficult to support ongoing staff if the commission was fully fee funded.
- **Regulatory Program Also Benefits Public.** The commission finds that its regulatory program also benefits society as a whole since its regulatory program is one way it protects the San Francisco Bay resources for the public. It cites that requiring permit applicants to pay the total costs of this program would be unfair.

Potential Permit Fee Scenarios. The commission has provided the following regarding fee levels needed to reach certain levels of revenue. The first column is the commission's current fee schedule. The BCDC's recommendation represents the fee level needed to generate revenues to cover 20 percent of regulatory program costs in the budget year. The LAO recommendation is the fee level needed to fully fund the commission's regulatory program.

Permit Fee Schedule Scenarios			
	Current Permit Fees	BCDC Recommendation: 20% Recovery Regulatory Program Costs	LAO Recommendation: Full Recovery Regulatory Program Costs
First time extension to a permit	\$50	\$160	\$800
Amendment to a permit	100	320	1,600
Activity under a regional permit	100	320	1,600
Minor repair or improvement with total project cost (TPC) of:			
less than \$300,000	150	480	2,400
\$300,000 to \$10 million	.05% of TPC	.16% of TPC	.81% of TPC
More than \$10 million	5,000	16,200	81,000
Projects other than minor projects with TPC's of:			
less than \$250,000	250	800	4,000
\$250,000 to \$10 million	.1% of TPC	.32% of TPC	1.62% of TPC
More than \$10 million	10,000	32,100	162,000
Estimated Annual Revenue Generated	\$129,000	\$417,800	\$2,089,000

Staff Recommendation. Staff agrees with the LAO and the commission that BCDC's permit fees should be increased. However, the commission has raised several valid concerns regarding shifting to full fee recovery of its regulatory program and regarding the creation of a special fund. Staff recognizes the public benefit of the commission's regulatory program and recommends funding for the program be shared between permit fees and the General Fund. Given these factors, *staff recommends that the subcommittee hold this issue open and direct staff, the LAO, and the department to develop trailer bill language to increase the commission's fee revenues by an amount reasonable to implement in the budget year.*